

IOWA COLLEGE STUDENT AID COMMISSION

Response to the State Government Oversight Committee Attorney General's Report to the Governor Concerning Iowa Student Loan

Accomplishments

The Iowa College Student Aid Commission (the Commission) is a state agency created in 1963. Commission members represent the general public, lending institutions, postsecondary students, community colleges, independent colleges and universities, the Department of Education, the Board of Regents, and the General Assembly.

The Commission administers 14 state-funded scholarship and grant programs which provide annual state grant awards totaling \$69.5 million to nearly 25,000 Iowa students. The Commission also was appointed by the State of Iowa as the state-designated guaranty agency in 1978 for the purpose of administering the Federal Family Education Loan Program (FFELP). As the FFELP guarantor, the Commission provides assurance (insurance) to lenders that loans made under FFELP will be repaid by the student. If a student defaults on a loan, the Commission reimburses the lender and collects the loan on behalf of the federal government. For federal fiscal year 2008, the Commission guaranteed approximately \$659 million dollars in federal student loans.

At the Commission's request, the Iowa Student Loan Liquidity Corporation (ISL) was formed in 1979 to help recruit Iowa lenders and provide secondary market services. Iowa Student Loan has grown to become nearly a multi billion dollar organization and holds 85 to 90 percent of the Commission's outstanding loan portfolio.

While the Commission (the state-designated guaranty agency), and ISL (the state-designated secondary market) both operate under the provisions of the Higher Education Act of 1965, as amended, the roles of each agency, in terms of Federal Student Aid administration, are very different as defined by federal regulation. With respect to these roles, each organization must follow both state and federal regulations. The Commission, in its role as guaranty agency, serves to guarantee Federal Student Loans originated by ISL and to provide oversight of ISL as a lender to ensure the lender is operating within the confines of Federal Regulations.

Because of the differing roles of the two organizations, the Commission has entered into strategic partnerships with ISL. The most important of which is the iLink Service Center which provides a single point of contact for processing electronic loan applications and data changes, along with state-based customer support, allowing the Commission to provide important services directly to its college and university clients.

The Commission is working with ISL and other lenders to inform colleges and universities about the advantages of the Federal Family Education Loan Program (FFELP) when compared with the Federal Direct Loan Program. This cooperative effort will help colleges and universities understand that the Commission and ISL and their partners are working together to ensure that Iowa students continue to have access to student loan funds and that services provided by the Commission, ISL, and

lenders continue to be provided to Iowa students and their families. As the state-designated guaranty agency, the Commission is able to provide local customer service that is unavailable from centralized national systems such as those used by the Federal Direct Loan Program. Iowa students and families can call the Commission's professional staff to seek answers to questions about obtaining access to postsecondary education or to resolve financial aid related problems.

The Commission has a Lender of Last Resort Program agreement with the U.S. Department of Education that ensures that FFELP loans will always be available to all eligible Iowa students. In the event that a student or college or university is unable to find a lender willing to make a FFELP loan, the Commission will make the loan using funds provided by the U.S. Department of Education. ISL has agreed to partner with the Commission in this effort through an arrangement under which ISL will service the loans made under the Lender of Last Resort Program. Fortunately, there have been no students who have needed to use the Lender of Last Resort Program, but it is reassuring to Iowa college and university officials that the Commission, with the assistance of ISL, is ready to ensure loan availability.

The Commission and ISL recently agreed, in principle, to share the cost of implementing electronic claim processing in the operations functions associated with claims review for defaulted loan claim files submitted to the Commission by ISL. The Commission and ISL have determined that the transition to electronic claim processing will improve the claim review process for both organizations. In addition, the cost savings achieved will be mutually beneficial.

At the suggestion of the Attorney General's Office, and on the recommendation of the Governor's Office, the Iowa College Student Aid Commission approved amendments to the Articles of Incorporation of the Iowa Student Loan Liquidity Corporation. These amendments convert the two ISL Board positions previously held by the Superintendent of Banking and an Iowa College Student Aid Commission board member to seats representing the general public, change the terms of the board members from three years to four years, and stagger the terms of members in the future to provide balance in appointments expiring in any given year. The amendments also give the Governor the authority to provide the review and consent for future amendments to ISL's Articles of Incorporation which previously required the consent of the Commission.

Relinquishing the Commission's state oversight of ISL was a topic of considerable discussion and a major concession by Commissioners. Commissioners believed that the Attorney General's report indicated serious deficiencies in the marketing of student loans. Commissioners believed they had an obligation to speak out on behalf of Iowa students. While the Commission is confident that the Governor will provide adequate oversight, the Commission has day-to-day, working knowledge of the operations of the federal student loan programs and felt that retention of state oversight was critical to ensuring that Iowa postsecondary students are well served by the program.

Legislative Recommendations

To ensure that the Commission and ISL are fulfilling the roles outlined in federal regulations and expected by the General Assembly, the Commission recommends that the following issues that were addressed in the Attorney General's report be clarified.

1. **ISL's College Planning Centers**. The Attorney General's report states:

- “While these procedures are laudable, the Kantrowitz report discloses that during the period 2001-2007, ISL paid ICAN and CPC employees bonuses based on the number of ISL borrowers. The report rightly states ‘[t]his incentive to increase the number of ISL borrowers is inconsistent with the goal of maintaining ICAN and CPS as objective and neutral resources for Iowa students. It presents a clear conflict of interest’.”
- “An idea that is worthy of consideration is to completely transfer the college planning and public information functions from ISL to the Commission. Under that approach, ISL would discontinue most all of their activities in the area and the Legislature would direct the Commission to assume these duties.”
- “Assigning college planning and public information functions primarily to the Commission would eliminate any risk that the ICAN unit does not act in a neutral fashion. It would also eliminate any overlap in existing public information programs administered by ISL and the Commission. It would allow ISL to redirect money spent on the ICAN unit to other uses, but could require additional resources for the Commission.”

Legislative action will be necessary if the General Assembly believes the Commission should take over the functionality of the Iowa College Access Network and its activities. However, the Commission realizes that during these economic conditions, the State could not appropriate state funding and additional staff in order to transfer the college planning and public information functions to the Commission. ISL's budget was not included in the report, but based on the services ISL provides through ICAN, state funding would be substantial.

The Commission will continue to identify areas of need that do not duplicate services already provided by ISL. When areas of need are identified, the Commission will develop and implement solutions that will complement services already in place in Iowa. In addition, the Commission will seek partnerships to ensure that Iowa students and families are well served.

The Commission has developed financial literacy, default prevention, and outreach materials to assist colleges and universities. In addition, the Commission is working with middle school and high school counselors to provide career planning for their students. In the coming months, the Commission will clarify its activities with respect to Iowa Code Section 261.2(3) which requires the Commission to –

“develop and implement, in cooperation with the state board of regents, an educational program and marketing strategies designed to inform parents about the options available for financing a college education and the need to accumulate the financial resources necessary to pay for a college education. The educational program shall include, but not be limited to, distribution of informational materials to public and nonpublic elementary schools for distribution to parents and guardians of five-year and six-year old children”

The Commission staff will closely assess this section of the Code and identify areas that are not being fully implemented. The Commission will make every attempt to ensure that the Code is fully implemented.

2. **Standards of Conduct.** The Attorney General's report suggests that ISL should be held to the highest standards of conduct because it is a nonprofit corporation that is accountable to the public and should act in the public interest. The Commission concurs with the Attorney General's report.
 - Based on HF 2690 passed during the 2008 legislative session, the Attorney General will continue to monitor ISL's marketing disclosures including:
 - a. ISL's claim that it provides the lowest-cost loans,
 - b. ISL's promotion of the use of federal loans, including Parent PLUS loans,
 - c. ISL's efforts to ensure federal loan eligibility is exhausted,
 - d. ISL's advertisements, including consolidation loans and borrower benefits, and
 - e. ISL's relationships with colleges and universities.

In collaboration with the Iowa Attorney General and Iowa college and university officials, the Commission recently finalized a Model Code of Conduct. Iowa colleges and universities may use this model to meet the requirements of Iowa Code Section 261E.2.

The model Code of Conduct is available on the Commission's website at:
www.iowacollegeaid.gov/schools/college/online/CodeofConduct.html.

Iowa College Student Aid Commission Goals

The Iowa College Student Aid Commission is dedicated to helping Iowa students and their families finance postsecondary education. Gift aid, in the form of scholarships and grants for students, is essential to the success of many students whose families cannot afford to send them to college. Many Iowans rely on the assistance provided by the federal and state governments to assist them in paying for college. For academic year 2006-07, Iowa ranked 22nd among the states when ranking gift aid to students and continues to have the highest-in-the-nation status for student debt upon graduation. The Commission will work with the General Assembly to improve Iowa's gift aid ranking and reduce the debt ranking.

Simplification of State Student Financial Aid. Across the Nation, the U.S. Department of Education, the College Board, the National Association of Student

Financial Aid Administrators (NASFAA), and many others have conducted studies about the complexity of the financial aid process. These studies suggest that there is a need to simplify the student financial aid process. Most involved in the discussions agree that federal and state policies should be redesigned to better serve students enrolled in postsecondary education and that those students should be able to graduate without incurring unrealistic debt. The simplification should lead to a more informed public and a reduction in the number of students who graduate with excessive debt.

The discussion has centered on the need for “simplification” of the process for awarding student financial aid – including the application, the formula used for calculating student eligibility, and the delivery systems. The number and complexity of federal and state applications, program eligibility requirements that vary from program to program, and state program requirements for attendance at specific colleges and universities may be the causes of confusion, frustration, and missed opportunities for students to access funding to help cover postsecondary education expenses.

Comments have been received from students and their families, college and university officials, legislators, and the Governor’s office concerning the administration of state-funded scholarship and grant programs. Concern has been expressed that the programs are not designed to assist all financially-needy students regardless of the postsecondary education institutions the students choose to attend. Programs established and originally funded 30 or 40 years ago may be insufficient for the needs of today’s students.

There are many more educational opportunities for students today than there were 40 years ago, and education is much more expensive. All students should have the opportunity to access more user-friendly systems to help them receive federal and state funds, ensuring that they have the resources necessary to pay for the postsecondary education they choose to pursue.

The Commission has discussed this issue with student financial aid professionals and will continue the discussion with lawmakers.

Career Information and Decision-Making Software. The Commission will continue to work with the Iowa Department of Education to provide the state-designated career information and decision-making software to Iowa middle- and high-school students free of charge. This valuable software is being used to assist middle-school students complete their required 8th-grade plans. The software also provides valuable information to students about career and college planning and about financing postsecondary education. The Commission plans to enhance this software by providing it through a dynamic web portal that will be available to assist all Iowans plan, prepare, and pay for college.

GEAR UP Grant. The Commission was recently awarded the state’s first statewide GEAR UP Grant by the U.S. Department of Education. GEAR UP – Gaining Early Awareness and Readiness for Undergraduate Programs – is a grant program designed to increase the number of low-income students who are prepared to enter and succeed in postsecondary education. GEAR UP awards six-year grants to states to provide

services at high-poverty middle- and high-schools. GEAR UP grantees serve an entire cohort of students beginning no later than the seventh grade and follow the cohort through high school. GEAR UP funds are also used to provide college scholarships to low-income students.

Conclusion

The Iowa College Student Aid Commission plans to continue to work with its partners – Iowa lawmakers, colleges and universities, Iowa Student Loan, lenders, and others – to support Iowa students and their families as it seeks to improve postsecondary access and choice for Iowa students.